

Message Text

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41

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 3299

INFO AMEMBASSY BRIDGETOWN

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AMEMBASSY PORT OF SPAIN

C O N F I D E N T I A L KINGSTON 5270

FOR UNDER SECRETARY ROGERS & ASSISTANT SECRETARY SHLAUDEMAN
FROM AMBASSADOR

E.O. 11652: GDS

TAGS: EFIN, JM

SUBJECT: THE POST-ELECTION JAMAICAN ECONOMIC CRISIS

REF: KINGSTON 5206

1. G. ARTHUR BROWN, GOVERNOR OF THE BANK OF JAMAICA, TOLD ME AND ASSISTANT AID ADMINISTRATOR GIRARD NOVEMBER 30 THAT JAMAICA HAD ALREADY "SPENT" OR COMMITTED ITS LATEST AND LAST IMF COMPENSATORY FINANCING FACILITY TRANCHE OF 15 MILLION DOLLARS AND THE CANADIAN LOAN OF 25 MILLION DOLLARS LARGELY IN REPAYMENT OF THE 30 MILLION DOLLAR LOAN ARRANGED LAST YEAR BY A CONSORTIUM OF JAMAICAN BASED BANKS.

2. BROWN INDICATED THT THE 40 MILLION DOLLARS HE IS HOPING TO GET FROM THE IMF UNDER STANDBY CREDITS IS ALREADY "SPENT" FOR REPAYMENT OF THE SIX-MONTH CANADIAN LOAN AND A RECENTLY OBTAINED SHORT-TERM 15 MILLION DOLLAR COMMERCIAL BANK LOAN.

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3. WHEN I ASKED HOW HE SAW THE FUTURE, BROWN SAID THAT

THE GOVERNMENT WOULD HAVE TO FIND ANOTHER SOURCE OF FUNDS QUICKLY AS WELL AS IMPOSING STIFF IMPORT CONTROLS. HE WAS FEARFUL THAT OTHERWISE THE NEW YEAR WOULD SEE FOOD SHORTAGES WITH RESULTING WIDE-SPREAD RIOTING AND UNREST. AT PRESENT HE WAS UNAWARE OF ANY SUCH SOURCE ALTHOUGH HE MENTIONED THE POSSIBILITY THAT, AS ONE SMALL STEP, THE BAUXITE COMPANIES MIGHT BE ASKED TO PAY THEIR PRODUCTION LEVIES IN ADVANCE RATHER THAN AT THE END OF EACH QUARTER.

4. FOLLOWING ON BROWN'S COMMENTS WE HAVE LEARNED FROM LOCAL IMF REPRESENTATIVE LINDGREN, THAT AN IMF FACT-FINDING TEAM IS, AS REPORTED REFTEL, IN TOWN. IMF AND BANK OFFICIALS ARE DOING THEIR BEST TO CHARACTERIZE THE IMF VISIT AS "ROUTINE" BUT LINDGREN CONCEDED THAT ITS PURPOSE IS TO ESTABLISH A DATA BASE FOR CONSIDERATION OF AN ANTICIPATED GOJ REQUEST FOR STANDBY CREDITS.

5. LINDGREN SAID JAMAICA COULD REALISTICALLY EXPECT TO GET ONLY ABOUT 40 MILLION DOLLARS (FIRST TWO TRANCHES) OF ITS 53 MILLION DOLLAR STANDBY CREDIT QUOTA WITHIN THE SHORT TERM. TWENTY MILLION DOLLARS WOULD BE GRANTED IMMEDIATELY AFTER JAMAICA HAS FILED ITS REQUEST AND HAS SECURED IMF BOARD APPROVAL OF A RESPONSIBLE FINANCIAL PACKAGE. THE OTHER TWENTY MILLION DOLLARS WOULD BE PARCELLED OUT IN PHASES AS THE FINANCIAL PROGRAM IS PUT INTO OPERATION. IT WOULD PROBABLY BE A FULL YEAR BEFORE THIRD AND FINAL TRANCHE AND ANY EXTENDED FUND FACILITIES COULD BE MADE AVAILABLE. HE READILY CONCEDED THAT 40 MILLION IS ONLY "A DROP IN THE BUCKET" COMPARED TO JAMAICA'S SHORT-TERM NEEDS (PROBABLY 150 TO 200 MILLION) BUT HE EXPRESSED SOME HOPE THAT THE COMMERCIAL SECTOR AND INTERNATIONAL INSTITUTIONS MIGHT BE ABLE TO DIRECTLY OR INDIRECTLY PICK UP SOME OF THE LOAD.

6. LINDGREN SAID THE IMF IS GOING TO CONCENTRATE
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ON TWO ASPECTS OF JAMAICA'S FINANCIAL PACKAGE, THE SIZE OF THE BUDGET AND THE IMPLEMENTATION OF A FIRM WAGE POLICY. HE SAID THE FUND WOULD NOT AGREE TO ANY PACKAGE WHICH DID NOT REQUIRE DRASTIC REDUCTIONS IN THE BUDGET DEFICIT AND PLACE FIRM LIMITS ON WAGE INCREASES. LINDGREN AGREED THAT PRICE CONTROLS, IMPORT RESTRICTIONS AND A DEVALUATION WOULD PROBABLY FORM A PART OF THE PACKAGE ALTHOUGH

HE SAID THE IMF WAS LESS CONCERNED WITH THESE AREAS.
HE ALSO ADDED THAT HE COULD NOT SEE HOW ANY MEANING-
FUL FINANCIAL PROGRAM COULD ENCOMPASS EXPENDITURES
ON PROJECTS SUCH AS THE LUANA OIL REFINERY.

7. ON BALANCE, LINDGREN WAS OF THE VIEW THAT
JAMAICA WOULD MOVE TO OBTAIN ITS IMF CREDITS IMMED-
IATELY AFTER THE ELECTION. HE SAID THE GOJ HAS USED
EVERY POSSIBLE DEVICE TO STRETCH ITS EXISTING
RESERVES AND THERE SIMPLY ARE NO MORE METHODS LEFT.

8. FYI: THE BANK OF JAMAICA'S CONFIDENTIAL ESTIMATE
OF NOVEMBER 30 NET FOREIGN EXCHANGE BALANCE IS A
MINUS 104 MILLION DOLLARS. THIS REPRESENT A DRASTIC
DETERIORATION OF AN ALREADY SERIOUS SITUATION. A
PROJECTION OF CURRENT TRENDS WOULD INDICATE THAT THE
BANK WILL BE UNABLE TO MEET REPAYMENT COMMITMENTS
WITHIN THE FIRST TWO QUARTERS OF THE NEW YEAR UN-
LESS DRASTIC MEASURES ARE TAKEN. THE NATIONAL
PLANNING AGENCY AND THE BANK OF JAMAICA ALLEGEDLY
HAVE A FINANCIAL PACKAGE READY TO SURFACE BUT IT
WILL BE POLITICALLY IMPOSSIBLE TO DO SO UNTIL
AFTER THE DECEMBER 15 ELECTIONS, AND GIVEN IMF BOARD
APPROVAL REQUIREMENTS, STANDBY CREDITS WILL PROBABLY
NOT BE READY UNTIL JANUARY. UNTIL THEN THE FINANCIAL MANAGERS
ARE LEFT WRINGING THEIR HANDS.
GERARD

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